



Trabuco Canyon Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2012 and 2011



Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation



**Trabuco Canyon Water District
Board of Directors as of June 30, 2012**

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Edward Mandich	President	Elected	12/10-12/14
James Haselton	Vice President	Elected	12/08-12/12
Glenn Acosta	Director	Elected	12/10-12/14
Stephen Dopudja	Director	Elected	12/08-12/12
Michael Safranski	Director	Elected	12/10-12/14

**Trabuco Canyon Water District
Don Chadd, General Manager
32003 Dove Canyon Drive
Trabuco Canyon, California 92679
(949) 858-0277 – www.tcwd.ca.gov**

Trabuco Canyon Water District

Annual Financial Report

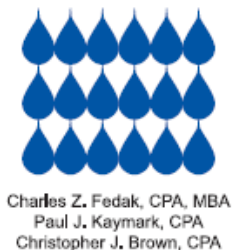
For the Fiscal Years Ended June 30, 2012 and 2011

Trabuco Canyon Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2012 and 2011

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Financial Section



Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

6081 Orange Avenue
Cypress, California 90630
(714) 527-1818
(562) 598-6565
FAX (714) 527-9154
EMAIL czfco@czfcpa.com
WEB www.czfcpa.com

Independent Auditor's Report

Board of Directors
Trabuco Canyon Water District
Trabuco Canyon, California

We have audited the accompanying financial statements of the Trabuco Canyon Water District (District) as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audits. The comparative financial information as of June 30, 2011 was audited by other auditors whose report dated February 1, 2012, expressed an unqualified opinion on those basic financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Trabuco Canyon Water District as of June 30, 2012, and the respective changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. This report can be found on page 30.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Independent Auditor's Report, continued

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Charles Z. Fedak & Company, CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPA's – An Accountancy Corporation
Cypress, California
September 30, 2012

Trabuco Canyon Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2012 and 2011

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Trabuco Canyon Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2012 and 2011. The two year presentation is provided for comparative purposes. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net assets increased 3.3% or \$1,861,419 to \$56,326,720 in fiscal year 2012 as a result of operations and a prior period adjustment. In 2011, the District's net assets increased 7.4% or \$3,751,214 to \$54,465,301 as a result of operations and a prior period adjustment.
- In 2012, the District's operating revenues increased 4.8% or \$237,900 primarily due to a \$133,377 increase in water consumption sales and a \$75,754 increase in reclaimed water sales. In 2011, the District's operating revenues decreased 10.2% or \$572,861 primarily due to a \$436,975 decrease in water consumption sales and an \$86,820 decrease in sewer service charges.
- In 2012, the District's operating expenses increased 4.1% or \$272,007 primarily due to increases in source of supply of \$177,017 and general and administrative – other of \$213,885, which were offset by a decrease in sewer operations of \$112,955. In 2011, the District's operating expenses increased 0.7% or \$43,089 primarily due to a decrease in source of supply of \$196,221, which were offset by an increase in transmission and distribution of \$64,783 and sewer operations of \$82,096.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Assets includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the District in a way that helps answer this question.

Trabuco Canyon Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2012 and 2011

Financial Analysis of the District, continued

These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net assets* and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 11 through 29.

Statement of Net Assets

Condensed Statements of Net Assets					
	2012	2011	Change	2010	Change
Assets:					
Current assets	\$ 25,937,939	26,054,064	(116,125)	25,300,210	753,854
Non-current assets	354,792	454,763	(99,971)	553,342	(98,579)
Capital assets, net	51,637,883	53,643,356	(2,005,473)	53,181,120	462,236
Total assets	77,930,614	80,152,183	(2,221,569)	79,034,672	1,117,511
Liabilities:					
Current liabilities	7,095,511	6,574,828	520,683	7,200,508	(625,680)
Non-current liabilities	14,508,383	19,112,054	(4,603,671)	21,156,751	(2,044,697)
Total liabilities	21,603,894	25,686,882	(4,082,988)	28,357,259	(2,670,377)
Net assets:					
Investment in capital assets, net	32,698,402	30,032,318	2,666,084	26,968,112	3,064,206
Restricted	9,892,934	9,733,378	159,556	8,779,767	953,611
Unrestricted	13,735,384	14,699,605	(964,221)	14,929,534	(229,929)
Total net assets	56,326,720	54,465,301	1,861,419	50,677,413	3,787,888
Total liabilities and net assets	\$ 77,930,614	80,152,183	(2,221,569)	79,034,672	1,117,511

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$56,326,720 and \$54,465,301 as of June 30, 2012 and 2011, respectively.

By far the largest portion of the District's net assets (58% as of June 30, 2012 and 55% as of June 30, 2011) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2012 and 2011, the District showed a balance in its restricted net assets of \$9,892,934 and \$9,733,378, respectively, which is restricted for future capital projects and debt service repayments.

At the end of fiscal years 2012 and 2011, the District showed a positive balance in its unrestricted net assets of \$13,735,384 and \$14,699,604, respectively, which may be utilized in future years. See note 11 for further discussion.

Trabuco Canyon Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2012 and 2011

Statement of Revenues, Expenses and Changes in Net Assets

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>2010</u>	<u>Change</u>
Revenue:					
Operating revenue	\$ 5,250,997	5,013,097	237,900	5,585,958	(572,861)
Non-operating revenue	<u>7,458,398</u>	<u>7,733,775</u>	<u>(275,377)</u>	<u>7,565,725</u>	<u>168,050</u>
Total revenue	<u>12,709,395</u>	<u>12,746,872</u>	<u>(37,477)</u>	<u>13,151,683</u>	<u>(404,811)</u>
Expense:					
Operating expense	6,834,524	6,562,517	272,007	6,519,428	43,089
Depreciation	2,749,493	2,484,085	265,408	2,515,941	(31,856)
Non-operating expense	<u>1,291,125</u>	<u>1,593,588</u>	<u>(302,463)</u>	<u>1,858,393</u>	<u>(264,805)</u>
Total expense	<u>10,875,142</u>	<u>10,640,190</u>	<u>234,952</u>	<u>10,893,762</u>	<u>(253,572)</u>
Net income before capital	1,834,253	2,106,682	(272,429)	2,257,921	(151,239)
Capital contributions:	<u>916,965</u>	<u>1,681,206</u>	<u>(764,241)</u>	<u>491,004</u>	<u>1,190,202</u>
Change in net assets	2,751,218	3,787,888	(1,036,670)	2,748,925	1,038,963
Net assets, beginning of year	54,465,301	50,714,087	3,751,214	47,965,162	2,748,925
Prior period adjustment	<u>(889,799)</u>	<u>(36,674)</u>	<u>(853,125)</u>	<u>-</u>	<u>(36,674)</u>
Net assets, end of year	<u>\$ 56,326,720</u>	<u>54,465,301</u>	<u>1,861,419</u>	<u>50,714,087</u>	<u>3,751,214</u>

The statement of revenues, expenses and changes of net assets shows how the District's net assets changed during the fiscal years. In the case of the District, the District's change in net assets increased by \$2,751,218 and \$3,787,888 for the fiscal years ended June 30, 2012 and 2011, respectively.

A closer examination of the sources of changes in net assets reveals that:

In 2012, the District's operating revenues increased 4.8% or \$237,900 primarily due to a \$133,377 increase in water consumption sales and a \$75,754 increase in reclaimed water sales. In 2011, the District's operating revenues decreased 10.2% or \$572,861 primarily due to a \$436,975 decrease in water consumption sales and an \$86,820 decrease in sewer service charges.

In 2012, the District's operating expenses increased 4.1% or \$272,007 primarily due to increases in source of supply of \$177,017 and general and administrative – other of \$213,885, which were offset by a decrease in sewer operations of \$112,955. In 2011, the District's operating expenses increased 0.7% or \$43,089 primarily due to a decrease in source of supply of \$196,221, which were offset by an increase in transmission and distribution of \$64,783 and sewer operations of \$82,096.

Trabuco Canyon Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2012 and 2011

Capital Asset Administration

Changes in capital asset amounts for 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2012</u>
Capital assets:				
Non-depreciable assets	\$ 3,079,860	744,020	(349,039)	3,474,841
Depreciable assets	97,186,978	349,039	(68,242)	97,467,775
Accumulated depreciation	<u>(46,623,482)</u>	<u>(2,749,493)</u>	<u>68,242</u>	<u>(49,304,733)</u>
Total capital assets, net	<u>\$ 53,643,356</u>	<u>(1,656,434)</u>	<u>(349,039)</u>	<u>51,637,883</u>

Changes in capital asset amounts for 2011 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2011</u>
Capital assets:				
Non-depreciable assets	\$ 5,458,327	2,973,441	(5,351,908)	3,079,860
Depreciable assets	91,900,815	5,351,908	(65,745)	97,186,978
Accumulated depreciation	<u>(44,178,022)</u>	<u>(2,484,085)</u>	<u>38,625</u>	<u>(46,623,482)</u>
Total capital assets, net	<u>\$ 53,181,120</u>	<u>5,841,264</u>	<u>(5,379,028)</u>	<u>53,643,356</u>

At the end of fiscal year 2012 and 2011, the District's investment in capital assets amounted to \$51,637,883 and \$53,643,356 (net of accumulated depreciation), respectively. This investment in capital assets includes land, transmission and distribution systems, buildings, equipment, vehicles and construction-in-process, etc. See note 7 for further information.

Debt Administration

Changes in long-term debt amounts for 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2012</u>
Long-term debt:				
Bonds payable	\$ 20,593,256	-	(5,262,945)	15,330,311
Loans payable	<u>3,017,783</u>	<u>664,533</u>	<u>(73,146)</u>	<u>3,609,170</u>
Total long-term debt	<u>\$ 23,611,039</u>	<u>664,533</u>	<u>(5,336,091)</u>	<u>18,939,481</u>

Changes in long-term debt amounts for 2011 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2011</u>
Long-term debt:				
Bonds payable	\$ 25,709,950	-	(5,116,694)	20,593,256
Loans payable	<u>-</u>	<u>3,017,783</u>	<u>-</u>	<u>3,017,783</u>
Total long-term debt	<u>\$ 25,709,950</u>	<u>3,017,783</u>	<u>(5,116,694)</u>	<u>23,611,039</u>

See note 10 for further information.

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the District's current financial position, net assets or operating results based on past, present and future events.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Treasurer at 32003 Dove Canyon Drive, Trabuco Canyon, California, 92679.

Basic Financial Statements

Trabuco Canyon Water District
Statements of Net Assets
June 30, 2012 and 2011

<i>Assets</i>	2012	2011
Current assets:		
Cash and investments (note 2)	\$ 14,488,043	14,394,997
Restricted – cash and investments (note 2 and 3)	10,217,160	10,174,740
Accrued interest receivable	17,346	18,489
Restricted – accrued interest receivable (note 3)	1,557	1,209
Accounts receivable – water sales and sewer services, net (note 4)	701,238	862,234
Property taxes receivable	16,567	14,506
Special assessments receivable	109,561	128,354
Accounts receivable – other	173,239	235,052
Note receivable – AMP – current portion (note 5)	19,829	18,437
Note receivable – property taxes from state (note 6)	97,170	95,473
Materials and supplies inventory	-	26,570
Prepaid expenses and other deposits	96,229	84,003
Total current assets	<u>25,937,939</u>	<u>26,054,064</u>
Non-current assets:		
Note receivable – AMP (note 5)	96,142	115,971
Deferred charges, net	258,650	338,792
Capital assets – not being depreciated (note 7)	3,474,841	3,079,860
Capital assets, net – being depreciated (note 7)	48,163,042	50,563,496
Total non-current assets	<u>51,992,675</u>	<u>54,098,119</u>
Total assets	<u>\$ 77,930,614</u>	<u>80,152,183</u>
 <i>Liabilities and Net Assets</i>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 836,303	395,888
Accrued wages and related payables	102,889	84,524
Customer deposits and deferred revenue	218,964	215,158
Accrued interest payable	325,783	442,571
Long-term liabilities – due within one year:		
Compensated absences (note 8)	47,591	47,330
Bonds payable (note 10)	5,490,000	5,310,000
Loans payable (note 10)	73,981	79,357
Total current liabilities	<u>7,095,511</u>	<u>6,574,828</u>
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 8)	142,772	141,990
Post-employment benefits payable (note 9)	990,111	748,383
Bonds payable (note 10)	9,840,311	15,283,256
Loans payable (note 10)	3,535,189	2,938,425
Total non-current liabilities	<u>14,508,383</u>	<u>19,112,054</u>
Total liabilities	<u>21,603,894</u>	<u>25,686,882</u>
Net assets: (note 11)		
Investment in capital assets, net of related debt	32,698,402	30,032,318
Restricted – capital projects	2,668,250	2,613,316
Restricted – debt service	7,224,684	7,120,062
Unrestricted – operational funds	13,735,384	14,699,605
Total net assets	<u>56,326,720</u>	<u>54,465,301</u>
Total liabilities and net assets	<u>\$ 77,930,614</u>	<u>80,152,183</u>

See accompanying notes to the basic financial statements

Trabuco Canyon Water District
Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Water consumption sales	\$ 2,647,053	2,513,676
Water service charges	609,677	641,778
Sewer service charges	1,182,789	1,183,708
Reclaimed water sales	633,239	557,485
Recycled water sales	115,464	90,351
Other charges for services	62,775	26,099
Total operating revenues	<u>5,250,997</u>	<u>5,013,097</u>
Operating expenses:		
Source of supply	1,532,257	1,355,240
Pumping	352,296	356,003
Water treatment	92,037	52,736
Transmission and distribution	198,422	159,429
Sewer operations	643,131	756,086
General and administrative – salaries and benefits	3,074,998	3,155,525
General and administrative – other	941,383	727,498
Total operating expenses	<u>6,834,524</u>	<u>6,562,517</u>
Operating loss before depreciation expense	(1,583,527)	(1,549,420)
Depreciation expense	(2,749,493)	(2,484,085)
Operating loss	<u>(4,333,020)</u>	<u>(4,033,505)</u>
Non-operating revenue(expense):		
Property taxes	1,247,027	1,244,745
Special assessments for debt service	6,083,087	6,259,810
Investment earnings	62,392	85,703
Rental revenue	21,713	21,969
Interest expense	(1,104,077)	(1,374,787)
Amortization of debt related items	(127,197)	(128,447)
Debt administration charges	(47,373)	(50,418)
Property tax administration charge	(12,478)	(12,816)
Loss on sale/disposition of capital assets	-	(27,120)
Other non-operating revenue	44,179	121,548
Total non-operating, net	<u>6,167,273</u>	<u>6,140,187</u>
Net income before capital contributions	<u>1,834,253</u>	<u>2,106,682</u>
Capital contributions:		
Water reliability and emergency storage fees	916,965	957,303
Development impact fees	-	312,118
Federal capital grant	-	411,785
Total capital contributions	<u>916,965</u>	<u>1,681,206</u>
Change in net assets	<u>2,751,218</u>	<u>3,787,888</u>
Net assets, beginning of year	54,465,301	50,714,087
Prior period adjustments (note 15)	(889,799)	(36,674)
Net assets, end of year	<u>\$ 56,326,720</u>	<u>\$ 54,465,301</u>

See accompanying notes to the basic financial statements

Trabuco Canyon Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 5,539,698	5,096,649
Cash paid to employees for salaries and wages	(1,860,856)	(1,852,830)
Cash paid to vendors and suppliers for materials and services	(5,203,617)	(5,232,148)
Net cash used in operating activities	<u>(1,524,775)</u>	<u>(1,988,329)</u>
Cash flows from non-capital financing activities:		
Property taxes	<u>1,244,966</u>	<u>1,245,201</u>
Net cash provided by non-capital financing activities	<u>1,244,966</u>	<u>1,245,201</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(744,020)	(2,973,441)
Capital contributions	916,965	1,681,206
Proceeds received from loan payable principal	664,533	3,017,783
Proceeds from special assessments for debt service	6,101,880	6,146,418
Principal paid	(5,383,146)	(5,165,000)
Interest paid	(1,220,865)	(1,435,274)
Net cash provided by capital and related financing activities	<u>335,347</u>	<u>1,271,692</u>
Cash flows from investing activities:		
Principal received on note receivable – AMP	18,437	17,028
Investment earnings	<u>61,491</u>	<u>87,387</u>
Net cash provided by investing activities	<u>79,928</u>	<u>104,415</u>
Net increase in cash and cash equivalents	<u>135,466</u>	<u>632,979</u>
Cash and cash equivalents, beginning of year	<u>24,569,737</u>	<u>23,936,758</u>
Cash and cash equivalents, end of year	<u>\$ 24,705,203</u>	<u>24,569,737</u>
Reconciliation of cash and cash equivalents to statement of financial position:		
Cash and cash equivalents	\$ 14,488,043	14,394,997
Restricted assets – cash and cash equivalents	<u>10,217,160</u>	<u>10,174,740</u>
Total cash and cash equivalents	<u>\$ 24,705,203</u>	<u>24,569,737</u>

Continued on next page

See accompanying notes to the basic financial statements

Trabuco Canyon Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (4,333,020)	(4,033,505)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Deprecation	2,749,493	2,484,085
Rental revenue	21,713	21,969
Debt administration charges	(47,373)	(50,418)
Property tax administration charge	(12,478)	(12,816)
Other non-operating income, net	44,179	121,548
Prior period adjustment	(889,799)	(36,674)
Changes in assets and liabilities:		
(Increase)decrease in assets:		
Accounts receivable – water sales and sewer services, net	160,996	(72,612)
Accounts receivable – other	61,813	12,647
Materials and supplies inventory	26,570	1,672
Prepaid expenses and other deposits	(12,226)	2,433
Increase(decrease) in liabilities:		
Accounts payable and accrued expenses	440,415	(814,393)
Accrued wages and related payables	18,365	367
Customer deposits and deferred revenue	3,806	104,244
Compensated absences	1,043	18,209
Post-employment benefits payable	241,728	264,915
Total adjustments	<u>2,808,245</u>	<u>2,045,176</u>
Net cash used in operating activities	<u>\$ (1,524,775)</u>	<u>(1,988,329)</u>

See accompanying notes to the basic financial statements

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Trabuco Canyon Water District (District) was organized in January 1962, under provisions of the County Water District Act (Sections 30000 et. seq. of the Water Code of the State of California). The District is governed by a Board of Directors made up of five members elected by the qualified voters in the District. The purpose of the District is to finance, construct, operate and maintain a water system and wastewater system to serve properties within the District's boundaries. The Trabuco Canyon Water District includes the accounts of the District, Trabuco Canyon Improvement Corporation and Trabuco Canyon Public Financing Authority.

The Trabuco Canyon Improvement Corporation (Corporation) was organized on September 1, 1988 pursuant to the Nonprofit Benefit Corporation Law of the State of California (Title 1, Division 2, Part 2 of the California Corporations Code), solely for the purpose of providing financial assistance to the District.

The Trabuco Canyon Public Financing Authority (Authority) was organized on August 8, 1993 pursuant to the Government Code of the State of California (Title 1, Division 7 Section 6500 of the California Government Code), as a Joint Powers Agency, solely for the purpose of providing financial assistance to the District.

The criteria used in determining the scope of the reporting entity is based on the provisions of GASB Statement 14, as amended by GASB Statement 39. The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit's board or because the component unit will provide a financial benefit or impose a financial burden on the District. The District has accounted for the Corporation and the Authority as "blended" component units. Despite being legally separate, these entities are so intertwined with the District that they are in substance part of the District's operations. Accordingly, these component units are included within the financial statements of the District.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

C. Financial Reporting

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

D. Assets, Liabilities and Net Assets

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

3. Investments

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

5. Property Taxes and Assessments

The Orange County Assessor's Office assesses all real and personal property within the County each year. The Orange County Tax Collector's Offices bills and collects the District's share of property taxes and assessments. The Orange County Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the Orange County which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Assets, continued

6. Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, pipe and pipefittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at cost using a first-in first out (FIFO) method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed. In fiscal year 2012, the remaining balance in materials and supplies inventory was expensed to operations.

7. Prepaid Expenses

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

8. Deferred Charges

Deferred charges of bond issuance costs are being amortized on a straight-line method over periods not to exceed debt maturities.

9. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Water transmission and distribution system – 5 to 40 years
- Wastewater system – 4 to 40 years
- Structures and improvements – 10 to 30 years
- Machinery equipment – 3 to 15 years

10. Compensated Absences

The District's policy is to permit employees to accumulate earned vacation up to a total of 240 hours with amounts exceeding the limit being paid out as part of the employee's regular compensation. Upon termination of employment, employees are paid all unused vacation and forfeit any unused sick time.

11. Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Investment in Capital Assets, Net of Related Debt** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted Net Assets** – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – This component of net assets consists of net assets that do not meet the definition of *restricted* or *investment in capital assets, net of related debt*.

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Assets, continued

12. Water Sales and Sewer Services

Water sales and sewer services are billed on a monthly cyclical basis and recognize the respective revenues when they are earned.

13. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment.

14. Reclassifications

Certain reclassifications of prior year amounts have been made to adhere to the current year presentation of the basic financial statements.

15. Budgetary Policies

The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

(2) Cash and Investments

Cash and investments as of June 30, are classified in the accompanying financial statements as follows:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 14,488,043	14,394,997
Restricted – cash and cash equivalents	<u>10,217,160</u>	<u>10,174,740</u>
Total cash and investments	<u>\$ 24,705,203</u>	<u>24,569,737</u>

Cash and investments as of June 30, consist of the following:

	<u>2012</u>	<u>2011</u>
Cash on hand	\$ 500	500
Deposits with financial institutions	364,335	311,470
Deposits in money-market funds	7,535,398	7,521,898
Investments	<u>16,804,970</u>	<u>16,735,869</u>
Total cash and investments	<u>\$ 24,705,203</u>	<u>24,569,737</u>

As of June 30, the District's authorized deposits had the following maturities:

	<u>2012</u>	<u>2011</u>
Deposits in Local Agency Investment Fund	268 days	237 days

Investments Authorized by the California Government Code and the District's Investment Policy

The District is legally empowered by statute and ordinance to invest in money-market funds held by the District's bond trustee and to invest in the California State Investment Pool – Local Agency Investment Fund. The District's investment policy identifies other investment types that are authorized for the District to invest in under the California Government Code.

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

(2) Cash and Investments, continued

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits:

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to \$250,000 held at each institution were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contains legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for external investment pools) that represent 5% or more of total District's investments at June 30, 2012 and 2011, respectively.

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

(3) Restricted Assets

Restricted assets consisted of the following as of June 30:

	<u>2012</u>	<u>2011</u>
Restricted – cash and investments	\$ 10,217,160	10,174,740
Restricted – accrued interest receivable	1,557	1,209
Total restricted assets	<u>\$ 10,218,717</u>	<u>10,175,949</u>

Restricted assets were provided by, and are to be used for, the following at June 30:

<u>Funding source</u>	<u>Use</u>	<u>2012</u>	<u>2011</u>
Refunding revenue bond proceeds	Reserve fund	\$ 7,535,398	7,521,898
Water reliability and emergency storage fees	Capital purchases	845,085	845,085
Development impact fees	Capital purchases	1,740,900	1,710,521
Special assessment	Capital at RD5	70,099	69,876
General revenues	Debt service	27,235	28,569
Total restricted assets sources and uses		<u>\$ 10,218,717</u>	<u>10,175,949</u>

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as necessary.

(4) Accounts Receivable – Water Sales and Sewer Services, net

Accounts receivable – water sales and sewer services, net consisted of the following as of June 30:

	<u>2012</u>	<u>2011</u>
Accounts receivable – water and sewer	\$ 704,525	868,443
Allowance for doubtful accounts	(3,287)	(6,209)
Total accounts receivable, net	<u>\$ 701,238</u>	<u>862,234</u>

(5) Note Receivable – AMP (Allen – McColloch Pipeline)

On July 1, 1994, Trabuco Canyon Water District signed an agreement along with the Municipal Water District of Orange County (MWDOC) and several other participants for the sale of capacity rights in the Allen – McColloch Pipeline (AMP) to the Metropolitan Water District of Southern California (Metropolitan). An initial cash payment was received with a note receivable of \$1,151,186 at 5.8% interest per annum with the first payment commencing July 3, 1995, and semiannual installments due January 1st and July 1st of each year through July 3, 2016.

Metropolitan acknowledged that the purchase price is substantially less than the value of the AMP based on replacement costs less depreciation, but MWDOC and the seller participants accepted the price because Metropolitan will expand the capacity of the AMP at their expense and will provide new delivery points along the AMP which will benefit the sellers. The principal balance remaining on the note as of June 30th was as follows:

	<u>2012</u>	<u>2011</u>
Note receivable – AMP – current portion	\$ 19,829	18,437
Note receivable – AMP	96,142	115,971
Total note receivable – AMP	<u>\$ 115,971</u>	<u>134,408</u>

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

(5) Note Receivable – AMP (Allen – McColloch Pipeline), continued

Note receivable – AMP repayment schedule as of June 30:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 19,829	6,191	26,020
2014	21,391	4,988	26,379
2015	23,055	3,691	26,746
2016	24,905	2,291	27,196
2017	26,791	782	27,573
	<u>\$ 115,971</u>	<u>17,943</u>	<u>133,914</u>

(6) Note Receivable – Property Tax from State

Under the provisions of the State of California Proposition 1A and as part of the 2010 fiscal year State of California budget package passed by the California State Legislature on July 28, 2009, the State of California borrowed 8.0% of the amount of property tax revenue apportioned to cities, counties and special districts. The State of California is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California State Legislature may consider only one additional borrowing within a ten-year period. The amount of the borrowing pertaining to the District was \$95,473 in addition to \$1,697 of accrued interest for a total of \$97,170 as of June 30, 2012. The borrowing by the State of California was recognized as a note receivable in the accompanying financial statements as follows:

Note receivable – property tax from state consisted of the following as of June 30:

	<u>2012</u>	<u>2011</u>
Note receivable – property tax from state	\$ 95,473	95,473
Accrued interest receivable on note	1,697	-
Total note receivable	<u>\$ 97,170</u>	<u>95,473</u>

(7) Capital Assets

Construction-In-Process

The District is involved in various construction projects throughout the year. Once completed, projects are capitalized and depreciated over the life of the asset. The balance of construction-in-process was \$1,135,728 and \$740,747 at June 30, 2012 and 2011, respectively.

Construction-in-process consisted of the following projects as of June 30:

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Lang/Rose well treatment upgrades	2,126,972	-	-
Reclaimed water system expansion	299,071	-	-
Porter property development	182,774	-	-
Pipeline upgrades	122,684	-	-
Pump replacement program	103,268	-	-
Pipeline damage from 2010 storm	-	375,746	-
Baker regional water treatment plant	170,870	251,220	257,578
Dimention water treatment generator	40,313	40,313	40,621
Shadow Rock detersion basin	34,439	34,439	38,288
Dove/Trabuco intertie reservoir	-	3,571	533,206
Alternate raw water transmission lines	-	-	138,900
Trabuco Creek wells - remote monitoring	-	-	90,474
Pressure regulator stations	-	-	36,661
Various other minor projects	38,823	35,458	-
Total construction-in-process	<u>\$ 3,119,214</u>	<u>740,747</u>	<u>1,135,728</u>

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

(7) Capital Assets, continued

Major capital assets additions during the years include upgrades and extensions of the District's water transmission and distribution systems and wastewater systems in the following schedules:

Changes in capital assets for the year ended June 30, 2012 were as follows:

	Balance 2011	Additions/	Deletions/ Transfers	Balance 2012
Non-depreciable assets:				
Land and land rights	\$ 2,339,113	-	-	2,339,113
Construction-in-process	740,747	1,177,690	(782,709)	1,135,728
Total non-depreciable assets	3,079,860	1,177,690	(782,709)	3,474,841
Depreciable assets:				
Water transmission and distribution system	45,452,860	52,510	-	45,505,370
Wastewater system	49,753,998	256,002	(6,342)	50,003,658
Structures and improvements	1,476,347	-	-	1,476,347
Machinery and equipment	441,873	40,527	-	482,400
Intangible plant	61,900	-	(61,900)	-
Total depreciable assets	97,186,978	349,039	(68,242)	97,467,775
Accumulated depreciation:				
Water transmission and distribution system	(21,359,402)	(1,210,737)	-	(22,570,139)
Wastewater system	(24,251,566)	(1,378,340)	6,342	(25,623,564)
Structures and improvements	(769,241)	(43,668)	-	(812,909)
Machinery and equipment	(243,273)	(54,848)	-	(298,121)
Intangible plant	-	(61,900)	61,900	-
Total accumulated depreciation	(46,623,482)	(2,749,493)	68,242	(49,304,733)
Total depreciable assets, net	50,563,496	(2,400,454)	-	48,163,042
Total capital assets, net	\$ 53,643,356	(1,222,764)	(782,709)	51,637,883

Changes in capital assets for the year ended June 30, 2011 were as follows:

	Balance 2010	Additions/	Deletions/ Transfers	Balance 2011
Non-depreciable assets:				
Land and land rights	\$ 2,339,113	-	-	2,339,113
Construction-in-process	3,119,214	2,973,441	(5,351,908)	740,747
Total non-depreciable assets	5,458,327	2,973,441	(5,351,908)	3,079,860
Depreciable assets:				
Water transmission and distribution system	41,228,147	4,290,458	(65,745)	45,452,860
Wastewater system	48,747,634	1,006,364	-	49,753,998
Structures and improvements	1,476,347	-	-	1,476,347
Machinery and equipment	386,787	55,086	-	441,873
Intangible plant	61,900	-	-	61,900
Total depreciable assets	91,900,815	5,351,908	(65,745)	97,186,978
Accumulated depreciation:				
Water transmission and distribution system	(20,277,279)	(1,120,748)	38,625	(21,359,402)
Wastewater system	(22,985,016)	(1,266,550)	-	(24,251,566)
Structures and improvements	(725,573)	(43,668)	-	(769,241)
Machinery and equipment	(190,154)	(53,119)	-	(243,273)
Intangible plant	-	-	-	-
Total accumulated depreciation	(44,178,022)	(2,484,085)	38,625	(46,623,482)
Total depreciable assets, net	47,722,793	2,867,823	(27,120)	50,563,496
Total capital assets, net	\$ 53,181,120	5,841,264	(5,379,028)	53,643,356

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

(8) Compensated Absences

Changes to compensated absences for 2012, were as follows:

<u>Balance</u> <u>2011</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2012</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
\$ 189,320	137,452	(136,409)	190,363	47,591	142,772

Changes to compensated absences for 2011, were as follows:

<u>Balance</u> <u>2010</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2011</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
\$ 171,111	143,759	(125,550)	189,320	47,330	141,990

(9) Post-Employment Benefits Payable

During the fiscal year ended June 30, 2009, the District implemented GASB Statement No. 45, which changed the accounting and financial reporting used by local government employers for post employment benefits. Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The reporting requirements for these benefit programs as they pertain to the District are set forth below.

Plan Description – Eligibility

The District pays a portion of the cost of health insurance for retirees (including prescription drug benefits) under any group plan offered by the CalPERS Health Program, subject to certain restrictions as determined by the District.

Membership in the OPEB plan consisted of the following members as of June 30:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Active plan members	24	24	24
Retirees and beneficiaries receiving benefits	3	3	3
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	<u>27</u>	<u>27</u>	<u>27</u>

Plan Description – Benefits

The District offers post employment medical benefits to retired employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any medical plan available through the District's CalPERS Health Program, a cost-sharing multiple-employer medical coverage plan. The contribution requirements of eligible retired employees and the District are established and may be amended by the Board of Directors.

Funding Policy

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District will pay a fixed contribution towards the cost of the post-employment benefit plan for those employees who meet the required service years for retirement from the District. The District funds the plan on a pay-as-you-go basis and maintains reserves (and records a liability) for the difference between pay-as-you-go and the actuarially determined ARC cost.

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

(9) Other Post Employment Benefits Payable, continued

Annual Cost

For the year ended June 30, 2012, the District's ARC cost was \$290,291. The District's net OPEB payable obligation amounted to \$990,111 for the year ended June 30, 2012. The District contributed \$34,874 in age adjusted contributions for current retiree OPEB premiums for the year ended June 30, 2012. The current ARC rate is 19.91% of the District's annual covered payroll.

The balance at June 30, consists of the following:

	2012	2011	2010
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 290,291	272,651	264,396
Interest on net OPEB obligation	37,419	24,173	11,521
Adjustment to annual required contribution	(51,108)	-	-
Total annual OPEB expense	276,602	296,824	275,917
Change in net OPEB payable obligation:			
Age adjusted contributions made	(34,874)	(31,909)	(22,878)
Total change in net OPEB payable obligation	241,728	264,915	253,039
OPEB payable – beginning of year	748,383	483,468	230,429
OPEB payable – end of year	\$ 990,111	748,383	483,468

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2012 and the two preceding years were as follows:

<i>Three-Year History of Net OPEB Obligation</i>				
Fiscal Year Ended	Annual OPEB Cost	Annual Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable
2012	\$ 276,602	34,874	12.61%	\$ 990,111
2011	296,824	31,909	10.75%	748,383
2010	275,917	22,878	8.29%	483,468

Funded Status and Funding Progress of the Plan

Required Supplemental Information – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	\$ -	1,907,350	1,907,350	0.00%	\$ 1,458,000	130.82%
June 30, 2008	\$ -	1,526,316	1,526,316	0.00%	\$ 1,472,000	103.69%

The most recent valuation (dated July 1, 2011) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$1,907,350. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2012 was estimated at \$1,458,000. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 130.82%.

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

(9) Other Post Employment Benefits Payable, continued

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	July 1, 2011
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Remaining amortization period	30 Years as of the valuation date
Asset valuation method	30 Year smoothed market
Actuarial assumptions:	
Discount rate	5.00%
Projected salary increase	3.00%
Inflation - discount rate	3.00%

(10) Long-Term Debt

Changes in long-term debt amounts for the year were as follows:

	Balance 2011	Additions	Payments	Balance 2012	Current Portion
Long-term debt:					
Bonds payable:					
1994 Series A Refunding revenue bonds	\$ 13,220,000	-	(4,220,000)	9,000,000	4,570,000
1994 Series B Refunding revenue bonds	1,230,000	-	(540,000)	690,000	340,000
1994 Series C Refunding revenue bonds	6,345,000	-	(550,000)	5,795,000	580,000
1994 Series A,B & C bond discounts	(201,744)	-	47,055	(154,689)	-
Total bonds payable	20,593,256	-	(5,262,945)	15,330,311	5,490,000
Loans payable:					
2011 State revolving fund loan	3,017,783	664,533	(73,146)	3,609,170	73,981
Total loans payable	3,017,783	664,533	(73,146)	3,609,170	73,981
Total long-term debt	\$ 23,611,039	664,533	(5,336,091)	18,939,481	5,563,981

Changes in long-term debt amounts for the year were as follows:

	Balance 2010	Additions	Payments	Balance 2011	Current Portion
Long-term debt:					
Bonds payable:					
1998 RD No. 5 refunding bonds	\$ 175,000	-	(175,000)	-	-
1994 Series A Refunding revenue bonds	17,105,000	-	(3,885,000)	13,220,000	4,220,000
1994 Series B Refunding revenue bonds	1,815,000	-	(585,000)	1,230,000	540,000
1994 Series C Refunding revenue bonds	6,865,000	-	(520,000)	6,345,000	550,000
1994 Series A,B & C bond discounts	(250,050)	-	48,306	(201,744)	-
Total bonds payable	25,709,950	-	(5,116,694)	20,593,256	5,310,000
Loans payable:					
2011 State revolving fund loan	-	3,017,783	-	3,017,783	79,357
Total loans payable	-	3,017,783	-	3,017,783	79,357
Total long-term debt	\$ 25,709,950	3,017,783	(5,116,694)	23,611,039	5,389,357

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

(10) Long-Term Debt, continued

1994 Series A & B – Special Tax Refunding Bonds

On April 1, 1994, the District issued \$61,960,000 of special tax refunding bonds to refund the original bonds issued in 1986 – 1988 for Community Facility Districts No. 2, 5, 7 and 8 totaling \$53,600,000 used to finance capital improvements within the District's service area.

1994 Series A – Refunding Revenue Bonds

The bonds are scheduled to mature in fiscal year 2016. Interest installments are payable each fiscal year at a rates of 6.0% to 6.1% on October 1st and April 1st, while principal payments are due on October 1st. The District collects an annual special assessment from the customers of the District in the service area where these capital improvements were constructed and are utilized. The debt service reserve fund for this issuance is \$5,119,000. Annual debt service requirements on the loan are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 4,570,000	409,615	4,979,615
2014	3,300,000	169,580	3,469,580
2015	545,000	52,308	597,308
2016	585,000	17,842	602,842
Total	9,000,000	649,345	9,649,345
Current	(4,570,000)		
Long-term	\$ 4,430,000		

1994 Series B – Refunding Revenue Bonds

The bonds are scheduled to mature in fiscal year 2015. Interest installments are payable each fiscal year at a rates of 6.9% to 7.0% on October 1st and April 1st, while principal payments are due on October 1st. The District collects an annual special assessment from the customers of the District in the service area where these capital improvements were constructed and are utilized. The debt service reserve fund for this issuance is \$714,465. Annual debt service requirements on the loan are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 340,000	36,400	376,400
2014	15,000	23,975	38,975
2015	335,000	11,725	346,725
Total	690,000	72,100	762,100
Current	(340,000)		
Long-term	\$ 350,000		

1994 Series C – Refunding Revenue Bonds

On April 15, 1994, the District issued \$12,080,000 of water and wastewater refunding revenue bonds to refund a prior outstanding issuance. The bonds are scheduled to mature in fiscal year 2020. Interest installments are payable each fiscal year at rates of 6.0% to 6.1% on July 1st and January 1st, while principal payments are due on July 1st. The debt service reserve fund for this issuance is \$1,701,933. Annual debt service requirements on the loan are as follows:

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

(10) Long-Term Debt, continued

1994 Series C – Refunding Revenue Bonds, continued

<u>Year</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$	580,000	335,515	915,515
2014		615,000	299,388	914,388
2015		660,000	260,470	920,470
2016		695,000	218,543	913,543
2017		745,000	175,222	920,222
2018-2020		2,500,000	235,154	2,735,154
Total		5,795,000	1,524,292	7,319,292
Current		(580,000)		
Long-term	\$	5,215,000		

2011 State Revolving Fund Loan

In fiscal year 2011, the District and the State of California, Department of Public Health, entered into a contract for a construction loan in the amount of \$3,694,264 under the Safe Drinking Water State Revolving Fund Law of 1977. The purpose of the loan was to assist the District in financing construction of the Trabuco Creek Wells Facility, which will enable the District to meet the State of California's safe drinking water standards. The loan proceeds were disbursed to the District based upon project expenditures submitted. The final construction costs totaled and submitted were \$3,682,316, which was \$11,948 less than the original contracted amount.

The loan is scheduled to mature in fiscal year 2032. Principal and interest installments are payable each fiscal year at a rate of 2.2836% on July 1st and January 1st. Annual debt service requirements on the loan are as follows:

<u>Year</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$	73,981	41,209	115,190
2014		150,506	79,875	230,381
2015		153,962	76,419	230,381
2016		157,498	72,883	230,381
2017		161,116	69,265	230,381
2018-2022		862,810	289,095	1,151,905
2023-2027		966,545	185,360	1,151,905
2028-2032		1,082,752	69,153	1,151,905
Total		3,609,170	883,259	4,492,429
Current		(73,981)		
Long-term	\$	3,535,189		

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

(11) Net Assets

Calculation of net assets as of June 30, were as follows:

	2012	2011
Investment in capital assets, net of related debt		
Capital assets, not being depreciated	\$ 3,474,841	3,079,860
Depreciable capital assets, net	48,163,042	50,563,496
Current:		
Bonds payable	(5,490,000)	(5,310,000)
Loans payable	(73,981)	(79,357)
Non-current:		
Bonds payable	(9,840,311)	(15,283,256)
Loans payable	(3,535,189)	(2,938,425)
Total investment in capital assets, net of related debt	32,698,402	30,032,318
Restricted net assets:		
Restricted – cash and investments	10,217,160	10,174,740
Restricted – accrued interest receivable	1,557	1,209
Current:		
Accrued interest payable	(325,783)	(442,571)
Total restricted net assets	9,892,934	9,733,378
Restricted net assets:		
Restricted – capital projects	2,668,250	2,613,316
Restricted – debt service	7,224,684	7,120,062
Total restricted net assets	9,892,934	9,733,378
Unrestricted net assets:		
Non-spendable net assets:		
Materials and supplies inventory	-	26,570
Prepaid expenses and other deposits	96,229	84,003
Deferred charges, net	258,650	338,792
Total non-spendable net assets	354,879	449,365
Spendable net assets are designated as follows:		
One-time debt reduction and special projects reserve	9,154,418	10,752,075
District-wide capital projects reserve	458,901	509,905
Equipment/maintenance reserve	303,043	431,046
Water rate-stabilization reserve	479,560	479,348
Sewer rate-stabilization reserve	181,159	180,595
Working capital reserve	630,702	630,702
Operating reserve	2,172,722	1,266,569
Total spendable net assets	13,380,505	14,250,240
Total unrestricted net assets	13,735,384	14,699,605
Total net assets	\$ 56,326,720	54,465,301

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

(12) Defined Benefit Pension Plan

Plan Description

The Agency contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multi-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the Agency. Copies of CalPERS annual financial report may be obtained from their executive Office: 400 P Street, Sacramento, CA, 95814.

Funding Policy

The contribution rate for plan members in the CalPERS, 2.5% at 55 Risk Pool Retirement Plan is 8% of their annual covered salary and is paid by the District. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2012, 2011 and 2010 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. At fiscal year ended June 30, 2012, the District does not have an unfunded pension liability. For Fiscal years 2012, 2011 and 2010, the District's annual contributions for the CalPERS plan were equal to the Agencies required and actual contributions for each fiscal year as follows:

Three Year Trend Information:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>APC Percentage of Payroll</u>
2009-2010	\$ 376,698	100%	-	14.340%
2010-2011	391,704	100%	-	15.184%
2011-2012	442,829	100%	-	17.932%

(13) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2012, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$1,000,000, combined single limit at \$1,000,000 per occurrence. The JPIA purchases additional excess coverage layers: \$60 million per occurrence for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to \$100,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage's.

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

(13) Risk Management, continued

- Property loss is paid at the replacement cost for property on file (\$31,714,916), if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$100 million per occurrence, subject to a \$2,500 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$50 million per occurrence, subject to various deductibles depending on the type of equipment.
- Dam failure liability coverage up to \$5.0 million per occurrence; the ACWA/JPIA is self-insured up to \$50,000 and excess insurance coverage has been purchased.
- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law. The ACWA/JPIA is self-insured up to \$2.0 million and excess insurance coverage has been purchased.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the year ending June 30, 2012. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2012, 2011 and 2010, respectively.

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2012, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 60

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This standard address how to account for and report service concession arrangements, a type of public-private or public-public partnership that state and local governments are increasingly entering into. This statement is effective for financial statements for periods beginning after December 15, 2011. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

Governmental Accounting Standards Board Statement No. 61

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity, Omnibus*. This standard is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and local Governments*. This statement is effective for financial statements for periods beginning after June 15, 2012. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

Governmental Accounting Standards Board Statement No. 62

In December 2010, The GASB issued Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 62, continued

Hereinafter, these pronouncements collectively are referred to as the “FASB and AICPA pronouncements.” This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

Governmental Accounting Standards Board Statement No. 63

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This statement is effective for financial statements for periods beginning after December 15, 2012. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

Governmental Accounting Standards Board Statement No. 65

In March 2012, the GASB issued Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

Governmental Accounting Standards Board Statement No. 66

In March 2012, the GASB issued Statement No. 66 – *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

(15) Prior Period Adjustment

	<u>2012</u>	<u>2011</u>
Net assets, beginning of year as previously stated:	\$ 54,465,301	50,714,087
CalPERS Side-Fund payoff	(514,053)	-
Capitalized costs expensed	(375,746)	-
Over-accrual of revenue	-	(31,520)
Under-accrual of expenses	-	(5,154)
Total adjustments	(889,799)	(36,674)
Change in net assets, as stated	<u>2,751,218</u>	<u>3,787,888</u>
Net assets, end of year with restatement	\$ <u>56,326,720</u>	<u>54,465,301</u>

CalPERS Side-Fund Payoff

As of June 30, 2003, CalPERS implemented risk-pooling for the District's agent multiple-employer public employee defined benefit pension plan. As a result, the District's defined benefit pension plan with CalPERS converted from an agent multiple-employer plan to a cost sharing multiple-employer plan. This change in the type of the plan created the CalPERS Side-Fund, which CalPERS financed at a 7.75% interest rate. CalPERS actuarially calculated the amount needed to bring the District into the cost sharing multiple-employer plan on an equal basis with other governmental agencies that all had less than 100 active and retired employees combined. The reason that CalPERS switched these governmental agencies into the cost sharing multiple-employer plan was to smooth out the annual costs related to the pension benefit over a longer period of time resulting in a lower cost of service to the governmental agencies.

A portion of the District's annual required contributions to CalPERS are actuarially determined and shared by all governmental agencies within the cost sharing risk pool. Also, the District was required to make annual payments to pay-down the CalPERS Side-Fund, as well. The responsibility for paying-down the District's CalPERS Side-Fund is specific to the District and is not shared by all governmental agencies within the cost sharing risk pool. Therefore, the Side Fund falls under the definition of pension-related debt, as described in GASB Statement No. 27 and was to be recorded as liability on the District's financial statements.

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

(15) Prior Period Adjustment, continued

CalPERS Side-Fund Payoff, continued

As of June 30, 2012, the District decided to payoff its Side-Fund obligation of \$514,053, resulting in an economic gain of \$266,001 from the interest expense savings on the pension-related debt, and has recorded the expense as a prior period adjustment due to its origination in a prior fiscal year.

Capitalized Costs Expensed

In fiscal year 2012, the District was reviewing the costs incurred to repair the pipeline damages suffered from the 2010 winter storms and which were subsequently capitalized to a construction-process project in the prior year. The District determined that the costs incurred were general repairs and would not extend the useful life of the damaged transmission pipeline. Therefore, the District has recorded the expense of \$375,746 as a prior period adjustment due to incurring the costs and capitalizing them in prior fiscal years.

Over-Accrual of Revenue

In fiscal year 2011, the District noticed that certain revenue items of \$31,520 were over-accrued as of June 30, 2010. Therefore, the District has recorded the reversal of the revenue of \$31,520 as a prior period adjustment.

Under-Accrual of Expenses

In fiscal year 2011, the District noticed that certain costs for transmission and distribution expense of \$5,154 were under-accrued as of June 30, 2010. Therefore, the District has recorded the expense of \$5,154 as a prior period adjustment.

(16) Commitments and Contingencies

Economic Dependency

The District purchases a majority of its source of supply from the Santiago Aqueduct Commission. Interruption of this source would impact the District negatively.

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water and wastewater facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and capital contributions.

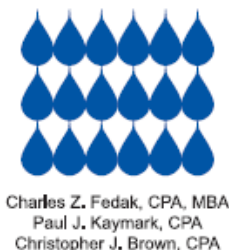
Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(17) Subsequent Events

Events occurring after June 30, 2012 have been evaluated for possible adjustment to the financial statements or disclosure as of September 30, 2012, which is the date the financial statements were available to be issued.

Report on Internal Controls and Compliance



Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

6081 Orange Avenue
Cypress, California 90630
(714) 527-1818
(562) 598-6565
FAX (714) 527-9154
EMAIL czfco@czfcpa.com
WEB www.czfcpa.com

Independent Auditor's Report on Internal Controls Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Trabuco Canyon Water District
Trabuco Canyon, California

We have audited the basic financial statements of the Trabuco Canyon Water District (District) as of and for the year ended June 30, 2012 and have issued our report thereon dated September 30, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPA's - An Accountancy Corporation
Cypress, California
September 30, 2012